

RURAL TRAINING NOTES

FARM MANAGEMENT *and* ELEMENTARY AGRICULTURAL ECONOMICS

Lectures Prepared by
R. B. McMILLAN, B.Com. (Melb.)
Senior Economics Research Officer
Division of Marketing and Agricultural Economics
N.S.W. Dept. of Agriculture

and

K. O. CAMPBELL, B.Sc.Agr. (Syd.)
Economics Research Officer
Division of Marketing and Agricultural Economics
N.S.W. Dept. of Agriculture

1946

MINISTRY OF POST-WAR RECONSTRUCTION

Copyright, 1947, by
Ministry of Post-War Reconstruction

These lectures are predominantly the original work of the two authors concerned, though of course Year Books and standard text books have provided many of the facts and ideas used.

However, special acknowledgment is made to Dr. H. J. Hynes, Assistant Director of Agriculture, N.S.W. Department of Agriculture, and Mr. G. S. Jolly, Rural Officer, N.S.W. Treasury, for material used in Lectures 14, 15, 16 and 17.

Lecture 17

CO-OPERATIVES

The vulnerability of the economic security of the primary producer—through bad seasons, high land values, heavy interest burdens and changes in general price levels—demands that every sound approach to stability should be explored. Co-operative marketing is one such approach. It does not, however, represent a cure for all the economic ills of agriculture, nor is it the solution of the problem of securing to farmers an abundant income; but with the broad objectives of "lower costs, high quality and better services," orderly marketing in the co-operative way does bring benefits to the farmer.

The Co-operative Movement Is Over 100 Years Old

It is now over 100 years since the co-operative movement was inaugurated, and the centenary of the opening of the first co-operative store at Rochdale, England, in December 1844, by a group of twenty-eight weavers, was observed in many countries. There are records, however, of primitive consumer societies as far back as 1769.

The movement has become firmly established in widely scattered areas of both hemispheres, and the International Co-operative Alliance, which includes in its affiliations agricultural and industrial producer societies, agricultural credit organisations and co-operative banks as well as consumer societies, was recently reported to have had affiliation with a membership of 100 million in forty different countries. These co-operatives in 1941 conducted business to the value of \$20,000 million. Beyond England and Scotland, where there are about eight million members, the movement is strongest in Scandinavian countries.

The Rochdale Principles

While there are differences in the constitutions under which the various co-operative societies function, and not all societies designated "co-operative" conform to the tenets laid down 100 years ago, in the main the basic Rochdale principles have been observed. These are as follows:—

- (1) Limiting each member to one vote, regardless of the number of shares held.
- (2) Distribution of annual savings to members in proportion to patronage, or use of savings collectively for the common interest of the group.

- (3) Payment of a limited amount of interest on a member's share capital.
- (4) Sales for cash only, and at market prices.
- (5) Use of portion of earnings for educational activities and expansion.
- (6) Neutrality on political and religious questions.

In some societies the savings or surplus, returnable as dividends, is paid not only to members but also to non-members who use the co-operative services. Again, there is, in some cases, a departure from the principle of "one man—one vote" in management control, the extent of a member's patronage or the amount of share stock held determining the number of votes allowed, but in these instances the number of shares owned per member is usually limited.

It is to be noted, also, that in some countries the old tradition of political neutrality has been abandoned by co-operatives entering into formal or informal partnership with certain political movements. This is stated to have made difficult the maintenance of an international organisation, and has proved embarrassing to the International Co-operative Alliance.

The Role of Co-operation

When it is remembered that marketing proper involves any one of a number of links in the chain that spans the gap between the producer and the consumer—assembling, grading, packaging, storing, processing, transporting, financing, distribution and selling—it will be realised what a specialised and costly undertaking it is under modern conditions. For this reason, the marketing of primary products through co-operative organisations should make a special appeal to the grower.

Producers as a group, however, are intensely individualistic, and this fact, especially when price levels are relatively favourable and a reasonably satisfactory service is provided by middlemen, has caused growers to concentrate on production without, in the majority of cases, seriously considering co-operative action to improve their lot on the marketing side. Agents have evolved a system calculated to conserve their own interests, rather than those of the producer, who, in times of oversupply, has to shoulder the risk. Continued and close association with a marketing system means that usually its practices are taken for granted without fully realising its imperfections and the need for reconstruction.

The lack of enthusiasm for co-operative enterprise probably results from attempting to justify it only by financial results—increased profits rather than increased efficiency

and better ways of doing business. Too often the tendency is to regard a co-operative society as merely a means of eliminating the middle-man, and as a cheap source for supply of necessities such as seeds and fertilisers.

The Co-operative Society Must Be a Business Institution

Nevertheless, in spite of its many other aspects, the co-operative society must be first and foremost a business institution, and the central problem of its marketing organisation is to maximise the margin between costs and returns—to obtain for its members the highest farm price; and the aim should always be to conduct the enterprise so that the farmer benefits by the savings, rather than that profits should be made on the capital invested.

It should be noted that a middleman's services are not eliminated by establishing a co-operative society, though the individual performing those functions may be. It would be strange for an efficient middleman not to make profits, and if a co-operative enterprise is to be successful it must not only be as efficient as a prosperous private concern, but must perform the marketing services of the middleman for less than the total gross margin that would be deducted by him. Under co-operation it is possible to correct the unsatisfactory position which results on a competitive market from too many wholesalers, each operating with a small volume and high overhead costs.

Years of experience by other countries have demonstrated that there are four essentials to success in any co-operative marketing set-up, viz.:—

- (1) An assured volume of business, large enough to make economic operation possible.
- (2) Skilful and economic management.
- (3) Adequate finance in the early stages.
- (4) Elimination of costly and non-essential services.

Attention is particularly directed to the needs for skilful management and adequate finance. Indeed it is thought that probably most failures in co-operative enterprise in this country are attributable to poor management and insufficient finance, rather than to any other factor.

Marketing and Production Inter-related

Marketing and production are closely inter-related problems, and efficiency in the marketing of any farm product is to a large extent dependent on adjustment of supply to demand. This is very difficult to achieve on a declining market, especially in the case of perishable commodities. While with a manufacturer the supply is determined by the price, the prices realised by a farmer for his products are governed by the supply.

Unfavourable prices for farm products are always likely to occur while there is relatively excess production of these commodities in comparison with other goods and services which the producer is compelled to purchase. If co-operative enterprises could control the volume of products marketed, it would be possible for them to exert a monopolistic influence over price, but it is freely admitted that only in special instances is a co-operative able to limit the amount sent to market. Price is influenced more by supply and demand than any other factors.

An important lesson is to be learnt from experience in the United States, where it has been found that co-operative associations have been forced to study the market to determine the demand for certain products, to time sales in accordance with strong demand and to develop all possible markets. It has been clearly shown that co-operative enterprise makes possible a better feeding of all markets, instead of starving one and glutting another. This is orderly marketing and leads to stabilisation of the market by offering lines at reasonable prices, over-supplied goods being diverted to canneries, cool stores etc.

Co-operation and the Other Economic Systems

Active protagonists of the co-operative movement aver that there is no other form of business organisation that can so materially assist in achieving economic and social stability. There is nothing, however, in the co-operative system which accords it any peculiar economic rights or privileges not enjoyed by a private business concern, and if established economic laws are disobeyed, failure is inevitable. But co-operation affords possibly the only sound means of eliminating the profit motive, for under this system the middleman's profits and losses are transferred to the producer in higher or lower prices.

The principal difference between a co-operative marketing enterprise and a private business is that, while in the former money is invested for marketing at cost and the basis of the enterprise is the user of the capital, in the latter money is invested for profit and the basis of the organisation is money. Many features of the capitalistic system are incorporated in co-operative undertakings, but, as one writer said, "Co-operativism is a synthesis of the elements of several economic systems, and it modifies the extremes of capitalism, fascism, socialism, and communism. It occupies a middle course, and is neither conservative nor radical. It is a liberal movement, practical in application and idealistic in purpose."

Co-operative Societies in Australia

In New South Wales, whilst several of the rural industries have become actively identified with the movement, the establishment of co-operative dairy companies represents an outstanding achievement, the first formed being the South Coast and West Camden Co-operative Company Ltd., which commenced selling operations in Sydney in 1880. The first co-operative butter factory in Australia was established four years later, near Kiama. The subsequent spread of the movement in the dairying industry in this State is typical of what has occurred in many countries, and is due to the fact that dairying offers a particularly appropriate field for co-operation. The average farm is small and so situated in relation to others as to encourage community spirit. Moreover, the local factory receives the products for manufacture, and there is a common interest among farmers.

In regard to producer co-operatives in Australia, the latest statistics show that in 1940 there were 382 societies, with a membership of 185,339, a total income of £42,453,736, and total expenditure of £41,416,954. There were, however, in the same year 57 societies which were both "producer" and "consumer" in character, with a membership of 14,348, a total income of £3,255,095, and total expenditure of £3,222,431. The number of purely consumer societies was only 93, with a membership of 110,926, and income and expenditure each in the vicinity of £5,500,000.

In 1940 most of the producer societies in Australia were concentrated in New South Wales—128 out of 382, with a membership of 57,268 and a turnover of £18,371,770.

Post-War Possibilities

It is of interest to note that at the United Nations Conference on Food and Agriculture, held at Hot Springs, Virginia, U.S.A., in May, 1943, the great importance of the co-operative movement to urban and rural populations was acknowledged, particularly in respect of facilitating adjustments of agricultural production and distribution, and inculcating among members a sound conception of economic matters.

Having in mind the need for making it possible for people to help themselves in the matter of lowering costs of production, marketing and distribution, the Conference recommended that:—

- (a) All countries study the possibilities of the further establishment of producer and consumer co-operative societies.

- (b) Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to co-operative development exist, so that desirable adjustments may be made.
- (c) Full information as to the present development of co-operatives in different countries be made available.

In Australia there is a lack of uniformity in legislative policy and machinery amongst the various States in respect of co-operative organisation in the primary industries. There is, for example, no provision in the Co-operation Act of New South Wales which would allow an authorised co-operative society in another State to register under the New South Wales Act, or to become a component of a co-operative association, such association being a registered union of societies for the purpose of performing such services for the individual societies as may be required.

In view of the inter-relation of interests of certain primary industries, particularly the fruit industry, this barrier impedes the development and operation of Commonwealth-wide co-operative organisation.

DISCUSSION TOPICS

1. What co-operative societies exist in your district and how have they developed? With what success?
2. Discuss the "Rochdale Principles." Do you think they are sound?
3. Co-operatives must be business institutions. Are they always as efficient as private businesses?
4. What are the principal reasons why co-operatives appeal to farmers?
5. Do you think co-operatives are likely to grow in importance in this country?